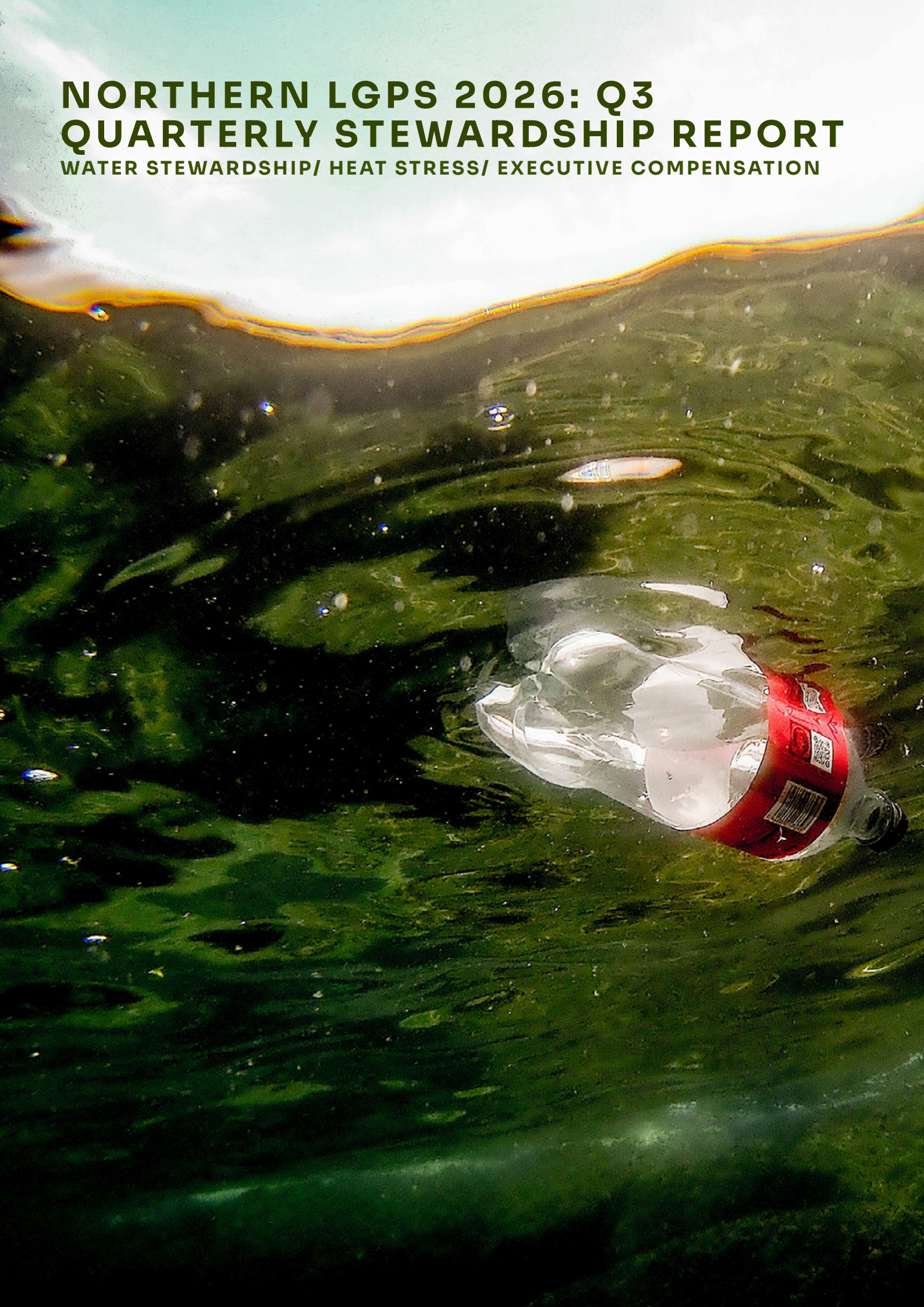
NORTHERN LGPS 2026: Q3 QUARTERLY STEWARDSHIP REPORT

WATER STEWARDSHIP/ HEAT STRESS/ EXECUTIVE COMPENSATION



FOCUS Q3: WATER STEWARDSHIP



Water stewardship in the beverage industry

Overview: Water is the beverage industry's most important raw material and a critical dependency across the value chain. It is not only the principal ingredient in many products, accounting for approximately 95% of beer[1][2] and around 90% of soft drinks[3], but also plays an essential role in cleaning, cooling, sanitation, packaging and other manufacturing processes.[4] As a result, water availability, quality and affordability directly affect operational resilience and long-term business performance.

Water-related risks are increasing due to climate change and intensifying competition for freshwater resources.[5] These risks are particularly significant for beverage companies because the majority of their water footprint often lies outside their direct operations. Although manufacturing facilities can consume substantial volumes of water, over 90% of the total water use associated with some beverage products occurs within

1 Nehra, M., Grover, N., Sandhu, K.S. and Thory, R. (2024) Raw Material for Beer Manufacturing. In: Nehra, M., Grover, N., Sandhu, K.S. and Thory, R. (eds.) Fruit Fortification of Craft Beer. Cham: Springer, pp. 37–72. Available at: https://link.springer.com/chapter/10.1007/978-3-031-60175-0_3 (Accessed: 29 September 2026).

2 The Open University. Environmental management and organisations: 11.1.1 Water use. OpenLearn. Available at: https://www.open.edu/openlearn/mod/oucontent/view.php?id=83423&section=1.1 (Accessed: 29 September 2026)

3 British Soft Drinks Association (n.d.) Ingredients. British Soft Drinks Association. Available at: https://www.britishsoftdrinks.com/ingredients/ (Accessed: 29 September 2026).

4 SOCOTEC UK (2020) *Reducing Water Footprint in the Food and Beverage Industry*. Available at: https://www.socotec.co.uk/media/blog/reducing-water-footprint-in-the-food-and-beverage-industry (Accessed: 29 September 2026).

5 UN-Water (2026) The United Nations World Water Development Report 2026: Water for All People – Equal Rights and Opportunities. Paris: UNESCO. Available at: https://www.unwater.org/publications/un-world-water-development-report-2026 (Accessed: 29 September 2026).

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agricultural supply chains through the cultivation of ingredients such as barley, hops, sugarcane, grapes, coffee and tea.[6]

Effective water stewardship therefore extends beyond operational efficiency. Companies must also address water-related dependencies across their supply chains, wastewater management and watershed restoration. Furthermore, as beverage operations frequently draw from the same water sources as local communities and ecosystems, poor water management can undermine a company's social licence to operate and expose it to operational, regulatory and reputational risks. Competition for water resources can lead to community opposition, project delays, production restrictions and higher operating costs. Well-known examples include Coca-Cola's disputes over groundwater extraction in India and the cancellation of Constellation Brands' brewery project in Mexicali, Mexico, which resulted in significant impairment costs.[7,8] These cases demonstrate how water-related controversies can have direct financial consequences and constrain future growth opportunities.

Physical climate risks are also increasing. Droughts, floods and changing rainfall patterns can disrupt manufacturing operations and reduce agricultural yields, increasing supply chain costs and commodity price volatility. At the same time, regulators are placing greater scrutiny on industrial water use, particularly in water-stressed regions where abstraction limits and drought-related restrictions can directly impact production.[9]

Disclosure expectations are also evolving. Requirements under frameworks such as the EU's Corporate Sustainability Reporting Directive (CSRD) and the ESRS E3 Water and Marine Resources standard require companies to disclose material water-related risks, dependencies, impacts and targets. Water-related challenges are therefore increasingly material to investors and are an indicator of operational resilience, supply chain security and long-term value creation across their portfolios.[10]



Northern LGPS actively encourages investee companies to adopt effective water stewardship practices. It expects companies to demonstrate expertise on water issues at the board level, operationalise effective water-management processes and implement strategies to reduce water consumption and minimise pollution discharge.

ENGAGEMENTS

During Q3 2026 and on behalf of Northern LGPS, PIRC engaged with A.G. Barr, Coca-Cola FEMSA, Asahi Group Holdings, AB InBev, Kirin Holdings, Brown-Forman Corporation, Diageo and Heineken regarding their management of water-related risks and opportunities.

WATER RISK ASSESSMENT AND OPERATIONAL EFFICIENCY:

All companies demonstrated established processes for assessing water-related risks across their operations. Most utilise recognised tools such as the WRI Aqueduct Water Risk Atlas and WWF Water Risk Filter, supplemented by site-level assessments and Source Water Vulnerability Assessments. Companies emphasised that local analysis remains necessary to capture risks that may not be fully reflected in global screening tools.

Kirin provided a notable example, explaining that local assessments identified flood-related risks that were not initially recognised through its global modelling approach. The company noted that this experience led it to strengthen

6 Hoekstra, A.Y. (2011) 'Corporate Water Footprint Accounting and Impact Assessment: The Case of the Water Footprint of a Sugar-Containing Carbonated Beverage', Water Resources Management, 25, pp. 721–741. Available at: https://link.springer.com/article/10.1007/s11269-010-9723-8 (Accessed: 29 September 2026)

7 The Guardian (2014) *Indian officials order Coca-Cola plant to close for using too much water*, 18 June. Available at: https://www.theguardian.com/environment/2014/jun/18/indian-officals-coca-cola-plant-water-mehdiganj (Accessed: 29 September 2026).

8 Agren, D. (2020) 'Mexican city rejects plans for giant US-owned brewery amid water shortages', The Guardian, 23 March. Available at: https://www.theguardian.com/world/2020/mar/23/mexico-brewery-mexicali-constellation-brands (Accessed: 29 September 2026)

9 CMS Law (2026) *Water Abstraction Reform: Government proposes a new strategy for sustainable water use.* Legal Updates. Available at: https://cms.law/en/gbr/legal-updates/water-abstraction-reform-government-proposes-a-new-strategy-for-sustainable-water-use (Accessed: 29 September 2026

10 EFRAG (2023) ESRS E3 *Water and Marine Resources*: *Delegated-act-2023-5303-annex-1*. Brussels: European Financial Reporting Advisory Group, pp. 1–6. Available at: EFRAG Knowledge Hub (Accessed: 29 September 2026).

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its risk assessment processes and place greater emphasis on site-level analysis and community consultation.

Given the localised nature of water-related risks, companies should establish global water-efficiency targets alongside more ambitious, context-specific targets for operations and supply chains in areas of high-water stress. Most companies disclosed priority facilities located within areas of water stress and established efficiency targets accordingly. AB InBev reported that it had exceeded both its global water efficiency target and its more ambitious target for high-water-stress sites. By contrast, Kirin explained that it does not apply a uniform global target, instead focusing reductions on Lion Breweries in Australia where water scarcity risks are greatest.

Companies described a range of technologies used to improve water efficiency. Asahi highlighted that redesigning air-induction nozzles at one of its soft drink facilities reduced bottle-washing water consumption by approximately 70%. Kirin discussed reverse osmosis water recycling systems installed at breweries in Australia, enabling treated water to be reused in cleaning operations. Heineken similarly reported operating more than 20 water reclamation plants and several sites that treat and reuse wastewater for general cleaning purposes, particularly in India where water stress is more pronounced.

Engagements also highlighted challenges associated with comparing water efficiency across beverage categories. Diageo and Brown-Forman noted that water intensity metrics can vary significantly by product type. Spirits, wines and ready-to-drink beverages require different production processes and maturation periods, making direct comparisons of litres of water used per litre of product less meaningful.



SUPPLY CHAIN WATER FOOTPRINT

The engagements reinforced the importance of agricultural supply chains as a key source of water dependency for beverage producers. Most companies had undertaken some form of scenario analysis to assess how water stress may affect yields and sourcing costs into the future.

Asahi disclosed that declining agricultural yields could result in financial impacts of up to JPY 1.8 billion under certain scenarios, while acute weather events such as droughts and heatwaves could increase procurement costs by up to JPY 12.9 billion. Kirin highlighted projections suggesting reduced yields for key commodities including barley, corn and soybeans in several major sourcing regions. Diageo also demonstrated a strong understanding of vulnerable crops and sourcing regions, identifying commodities such as barley, hops and agave that may experience water-related pressures.

A key theme across engagements was the limited collection of supplier water-use data. With the exception of Diageo, companies generally confirmed they do not systematically monitor water consumption among key suppliers.

Diageo provided the strongest disclosure through its recently published Supplier Guidance on Water Stewardship[11], which includes training resources, roadmaps and practical tools to help suppliers improve water management and prepare for replenishment initiatives.

Most companies instead sought to address supply chain water impacts through regenerative agriculture programmes. Heineken highlighted its ambition to source 100% sustainably sourced barley and hops by 2030, while Brown-Forman aims to support regenerative agricultural practices across 50,000 acres by 2035. Asahi described initiatives including AI-assisted irrigation projects with Czech hop growers and trials of dry-field rice cultivation techniques designed to reduce water requirements relative to traditional methods of flooded rice production.

WATER QUALITY:

Disclosure on water quality was generally less developed than that on water consumption, despite the industry's reliance on clean water for production. Most companies confirmed compliance with local discharge requirements but provided limited information on pollutant monitoring, discharge quality or

11 Diageo (2025) *Supplier guidance on water stewardship*. October. Available at: https://www.diageo.com/pdf-viewer.aspx?gid=307336661 (Accessed: 29 September 2026).

Image: Alamy

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long-term water quality objectives.

Asahi provided one of the strongest disclosures in this area. The company reported that no untreated wastewater is discharged from its operations and disclosed wastewater volumes alongside biological oxygen demand (BOD) and chemical oxygen demand (COD), key measures of wastewater quality and treatment performance. The company also monitors nitrogen, phosphorus and other pollutants and externally assures its water and wastewater data. Asahi noted that wastewater-related targets remain under consideration as it continues to evaluate potential future approaches. Coca-Cola FEMSA also demonstrated relatively strong disclosure, stating that 100% of its wastewater is treated to a standard capable of supporting aquatic life prior to discharge. This provides a clearer indication of the environmental outcomes the company is seeking to achieve, rather than focusing solely on compliance with regulatory requirements.

The engagements also highlighted a broader gap regarding agricultural water pollution. With the exception of Kirin, few companies explicitly discussed water quality impacts associated with agricultural runoff from fertilisers and pesticides. Kirin described assessments undertaken across key agricultural commodities to evaluate pollution risks, identifying comparatively higher risks associated with crops including tea, apples and plums. However, the company was unable to provide specific examples of measures being implemented to address these risks, making it difficult to assess how the findings are being translated into supplier engagement or mitigation efforts.

REPLENISHMENT:

Water replenishment and watershed restoration were another important focus of the engagements. Given that beverage companies frequently share watersheds with local communities and other water users, effective water stewardship requires companies not only to reduce water consumption but also to support the long-term health of the basins on which they depend. This is particularly important in water-stressed regions where competition for water resources can create operational and reputational risks. For some companies, basin health may also even have strategic importance where products are tied to a specific geography. For example, Scotch whisky must be produced in Scotland and intrinsically linked to the health and resilience of its local environment.

Several companies have adopted targets to replenish 100% or more of water consumed within basins experiencing high water stress. Coca-Cola FEMSA and Diageo reported achieving their replenishment targets in priority locations, while Heineken disclosed that 17 of its 40 water-stressed sites had achieved full water balance by 2025 through initiatives including wetland restoration, river-flow enhancement and community water-access projects.

As replenishment activities often rely on nature-based interventions such as reforestation, wetland restoration and watershed conservation, the resulting

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water benefits are frequently estimated rather than directly measured. As a result, the credibility of replenishment claims, the methodologies used to calculate them and the long-term permanence of projects are increasingly important considerations for investors and other stakeholders.

Engagements explored how companies ensure the robustness of their replenishment claims. Diageo provided particularly strong disclosure, explaining that its replenishment methodology is aligned with the World Resources Institute's Volumetric Water Benefit Accounting framework. The company also described the assurance processes supporting its replenishment figures, including an independent review of its Technical Protocol and alignment with the WRI methodology. Assurance procedures include site visits to material projects, testing of underlying assumptions and reperformance of replenishment calculations by independent experts. PIRC further discussed the issue of long-term permanence, noting that nature-based projects may be vulnerable to future droughts, wildfires or other climate-related impacts. Diageo explained that it seeks to address this risk through ongoing monitoring and local governance arrangements, including water councils that provide longer-term community oversight and management of projects.

Coca-Cola FEMSA similarly explained that replenishment is assessed at the watershed level, ensuring water is replenished within the same basin from which it is withdrawn. The company noted that replenishment volumes are independently verified and supported through partnerships with specialist organisations and technical experts.

Other companies focused on watershed conservation without establishing formal replenishment targets. Asahi highlighted its Asahi Forest programme in Japan, which is estimated to generate groundwater recharge volumes exceeding the water used by its domestic breweries. The company explained that the methodology was developed with a local university and emphasised that the initiative is intended to support broader watershed conservation rather than offset operational water consumption.

Kirin similarly described watershed restoration and conservation activities in Sri Lanka and Japan. The company highlighted the importance of community engagement in securing support for water-source protection projects and noted that educational outreach efforts helped build local understanding of conservation objectives. The company was encouraged to consider adopting quantitative replenishment targets and reporting progress against them over time.

WATER, SANITATION AND HYGIENE (WASH):

Engagement also focussed on water, sanitation and hygiene (WASH) programmes. AB InBev for example provided case studies, including the provision of emergency drinking water production for disaster relief efforts and the installation of reverse-osmosis community water kiosks in India. Coca-Cola FEMSA described how its community engagement process helps identify local needs and guide investments in water access and sanitation projects. Diageo also stood out through its commitment to improving access to clean water, sanitation and hygiene in communities located near all of its operations and sourcing regions within water-stressed areas.

However, disclosure was uneven across the sector. A.G. Barr and Brown-Forman lacked disclosure on dedicated WASH policies, targets or programmes. Kirin and Asahi could strengthen disclosure on WASH by providing a clearer strategic framework for community water, sanitation and hygiene initiatives. Current reporting is largely limited to a small number of case studies, including Kirin's watershed awareness activities in Sri Lanka and Asahi's well restoration and river-cleaning projects in Indonesia. Greater disclosure on programme objectives, geographic scope, beneficiaries reached and outcomes achieved would enable stakeholders to better assess the scale and impact of these WASH initiatives.

Outcomes: Most companies demonstrated robust processes for assessing operational water risks and have implemented efficiency measures tailored to site-specific conditions, particularly in water-stressed regions.

However, several opportunities for improvement remain. Despite recognising that agricultural supply chains account for the majority of sectoral water use, supplier water-use data collection remains limited. Diageo was the only company that confirmed it collects water-use data from key suppliers and supports suppliers through its Supplier Guidance on Water Stewardship. Improved visibility over supplier water use would help companies better understand their water footprint and establish meaningful supply chain targets.

Water quality also remains an area for development. While some companies provided detailed disclosures on wastewater management, water-quality targets and reporting on agricultural runoff risks remain limited. Greater transparency on pollutant monitoring, discharge impacts and supply chain water-quality risks would strengthen oversight in this area.

The engagements further highlighted opportunities to strengthen disclosure on water, sanitation and hygiene (WASH). Kirin and Asahi were encouraged to provide greater visibility of community water initiatives across their operations, including clearer information on programme scale, geographic coverage and outcomes.

Finally, while replenishment programmes are becoming more common, companies could provide greater transparency on the methodologies, assurance processes and long-term outcomes underpinning replenishment claims. Companies without formal replenishment targets may also wish to consider introducing quantitative targets and reporting progress against them over time.

Leading practice increasingly requires a watershed-level approach that integrates operational efficiency, supply chain management, water quality, replenishment and community water needs. As water-related risks intensify, companies that embed these considerations throughout their value chains will be better positioned to strengthen resilience and maintain their social licence to operate.

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HEAT STRESS IN THE APPAREL SECTOR:

Overview: Heat stress occurs when "the heat a body absorbs from the environment exceeds the body's ability to dissipate it".[12] The World Health Organization identifies heat stress as a leading cause of weather-related deaths.[13]

As temperatures rise and periods of extreme heat become more frequent and intense, heat stress is becoming an increasingly significant occupational health and safety risk. Extreme heat and humidity are rapidly emerging as major occupational health hazards. The International Labour Organization (ILO) estimates that 2.4 billion workers, representing over 70% of the world's working population are likely to encounter extreme heat each year during their work.[14] It links extreme heat to approximately 23 million non-fatal injuries and almost 19,000 deaths annually.

The risks are particularly relevant to the global apparel sector, where labour-intensive manufacturing is concentrated in countries experiencing high temperatures and humidity. Workers can face prolonged exposure to heat within factories, with the severity of that exposure influenced by factors including building design, ventilation and cooling, working hours and practices, and the heat generated by manufacturing processes.

Managing heat stress in garment manufacturing is complicated by the absence of consistent standards for determining when workplace temperatures become unsafe and what action should follow. Heat exposure is affected not only by temperature, but also humidity, workload, clothing, ventilation and proximity to heat-generating machinery. Appropriate responses can include access to drinking water, additional rest breaks, changes to working hours and improvements to ventilation and cooling. However, these measures must be implemented without

12 *'Heat Stress: What is it and how is it measured?'* - https://climate.copernicus.eu/heat-stress-what-it-and-how-it-measured
13 https://www.who.int/news-room/fact-sheets/detail/climate-change-heat-and-health
14 International Labour Organization. Ensuring safety and health at work in a changing climate. 2024.

Image: Alamy

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transferring the cost of adaptation onto workers. Where workers are paid according to hours worked or production output, for example, additional breaks can result in reduced earnings unless employers ensure that heat-related rest periods are paid. Worker education is similarly important, both so that workers can recognise the symptoms of heat-related illness and so that they understand when and how to raise concerns.

The absence of a universally applied maximum workplace temperature also presents a challenge for multinational apparel companies operating across different jurisdictions. Legal requirements and approaches to measuring occupational heat exposure vary between countries, while individual brands developing separate thresholds and supplier requirements risks creating further inconsistency within factories producing for multiple customers. This strengthens the case for coordinated industry approaches that establish common expectations for monitoring heat exposure, worker protection and remediation.

The International Accord for Health and Safety in the Garment and Textile Industry represents an important development in this respect. The Accord is a legally binding agreement between garment brands and global trade unions, implemented through country-specific safety programmes, including in Bangladesh and Pakistan. Its legally binding nature distinguishes it from voluntary corporate commitments by creating enforceable obligations for participating brands and establishing mechanisms through which workplace safety issues can be identified and remediated. Historically focused on structural, fire, electrical and boiler safety, in December 2025, the Accord has expanded its approach to incorporate extreme heat following worker complaints regarding high workplace temperatures and growing calls for action from labour and climate organisations.

The inclusion of extreme heat within this framework is significant because it provides an opportunity to move towards a more consistent, sector-wide approach to identifying and remediating heat risk. Rather than individual brands and suppliers developing different responses, common approaches to factory assessment, temperature and humidity monitoring, worker engagement and remediation could provide greater consistency across shared supply chains. This is particularly important in an industry where individual factories may manufacture for multiple international brands.



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Brands also have an important role in driving change through their position as buyers. Supplier requirements, purchasing practices and investment decisions can influence both the willingness and ability of manufacturers to implement heat adaptation measures. Where brands collectively establish clear expectations on heat protection, while ensuring that lead times, pricing and production requirements allow suppliers to meet them, their purchasing power can help drive improvements across the sector. This reinforces the importance of collective action, particularly where factories supply multiple international brands and would otherwise be subject to differing requirements.

Against this backdrop, engagement during the quarter focussed on global apparel companies with significant sourcing and manufacturing footprints in regions exposed to rising temperatures and extreme heat. The engagements explored whether companies were considering opportunities to address worker heat exposure alongside wider supply-chain decarbonisation, including through cleaner industrial heat, cooling and energy-efficiency measures.

Issues: Northern LGPS recognises the financial materiality of both effective people management and public health. The pool expects companies to respect labour rights, adopt stringent measures to protect workers health and safety, and provide effective grievance mechanisms for workers in their supply chain.

For apparel companies, heat stress presents a potential financial risk through its effects on worker health, productivity and supply-chain resilience. The sector relies on labour-intensive manufacturing, often in regions increasingly exposed to high temperatures and humidity. Where workplace temperatures become unsafe, workers may require additional rest and hydration breaks, reduced working hours or changes to production schedules. Without appropriate controls, heat exposure can also increase fatigue, illness and the risk of occupational injury.

These impacts can translate into reduced productive capacity. The International Labour Organization estimates that heat stress could result in the loss of 2.2% of total working hours globally by 2030, equivalent to 80 million

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full-time jobs.[15] In 2023, extreme heat resulted in the loss of around 512 billion potential working hours, almost 50% above the average recorded during the 1990s.[16] Research discussed during one of PIRC's engagements also suggested that worker productivity could decline by approximately 1.5% for each degree of temperature increase above around 32°C, although the methodology requires further validation.

Evidence from the apparel sector indicates that these risks are already materialising at factory level. NYU Stern's 2026 Too Hot to Ignore report, based on field research in India, identified four principal ways in which extreme heat is disrupting garment manufacturing: impacts on worker health and safety, increased absenteeism, reduced productivity and deterioration in product quality, including higher defect rates and delivery delays.[17] The report also highlights the role of purchasing practices, noting that tight margins, short lead times and volatile order volumes can constrain suppliers' ability to invest in cooling and other adaptation measures.

For apparel brands, these factory-level impacts can translate into wider supply-chain risk. Reduced output or temporary production disruption can affect suppliers' ability to meet agreed volumes and delivery schedules, potentially creating delays, increasing costs or requiring production to be redirected. These risks may become more significant where production is concentrated in heat-exposed sourcing markets or where suppliers have limited financial capacity to invest in cooling, ventilation and other adaptation measures.

Engagement: This quarter engagement focussed on six global apparel brands, Next, Puma, Burberry, Page Industries, Marks & Spencer and H&M, all with significant sourcing and manufacturing exposure to heat-vulnerable markets, particularly across Asia.

Engagement with the brands assessed company preparedness against a consistent set of expectations covering the principal components of effective heat-risk management. These included recognition and governance of heat stress; supplier health and safety systems; worker voice and grievance mechanisms; monitoring of workplace temperatures and sources of heat; purchasing practices that enable suppliers to respond safely to extreme heat; and longer-term investment in more resilient and lower-carbon manufacturing. Together, these expectations were used to assess the extent to which companies are moving from recognition of heat stress towards systematic identification, prevention and remediation of the risk.

A key finding was that recognition of heat stress is developing more quickly than systematic implementation. All companies engaged increasingly

15 International Labour Organization (ILO) (2019) *Increase in heat stress predicted to bring productivity loss equivalent to 80 million jobs.* Geneva: ILO. Available at: https://www.ilo.org/resource/news/increase-heat-stress-predicted-bring-productivity-loss-equivalent-80
16 https://pmc.ncbi.nlm.nih.gov/articles/PMC12615811/
17 NYU Stern: Too Hot to Ignore: Extreme Heat in Garment Supply Chains

Image: Alamy

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recognise extreme heat within climate, human rights and occupational health and safety frameworks, and the engagements identified examples of supplier guidance, factory risk assessments, temperature monitoring and practical remediation measures such as improved ventilation and cooling and changes to working arrangements. For example, Next has developed and disclosed heat stress guidance for suppliers, outlining practical measures to manage workplace heat exposure, including access to drinking water, appropriate rest breaks and improvements to ventilation and cooling. However, the guidance remains advisory rather than mandatory. More broadly, approaches remain inconsistent. Companies do not yet routinely apply comparable temperature and humidity data, common thresholds for intervention or consistent processes for identifying and reporting heat-related incidents across their supply chains.

Worker voice and visibility of heat-related impacts also remain areas for development. While companies such as H&M, PUMA and Marks & Spencer generally have grievance mechanisms and wider supplier monitoring systems in place, heat-related illnesses, complaints and grievances are not always separately identified. This can make it difficult to determine the scale of worker exposure or whether existing controls are effective. Burberry, however, provided an example of effective remediation, reporting that heat-related worker grievances had prompted suppliers to install additional fans and introduce temperature monitoring, with workers later confirming improvements in conditions. Greater worker participation, alongside improved collection of heat-specific data, would provide companies with a stronger basis for identifying high-risk facilities and assessing whether remediation is protecting workers in practice.

The engagements also highlighted the importance of purchasing practices in determining whether suppliers can respond appropriately to extreme heat. Protecting workers may require additional rest breaks, altered working hours or temporary reductions in production, which can affect suppliers' ability to meet agreed volumes and delivery schedules. Suppliers may therefore be reluctant to communicate disruption where they fear commercial consequences. While some companies, namely Marks & Spencer and Next provided examples of maintaining orders or adjusting expectations during climate-related disruption, heat resilience is not yet routinely incorporated into purchasing practices. Addressing heat stress therefore requires brands to consider not only the standards expected of suppliers, but whether their own commercial practices enable those standards to be met.

Finally, the engagements explored whether worker protection could be considered alongside wider efforts to decarbonise manufacturing. While companies including PUMA, Burberry and H&M are pursuing renewable energy, energy efficiency and emissions-reduction initiatives, there was less evidence of systematic assessment of the contribution of heat-generating production processes to worker exposure. Opportunities identified during the engagements included heat recovery, heat pumps, which Burberry have implemented at its own manufacturing site, alongside more efficient cooling and ventilation. H&M also highlighted its green finance initiative, which supports supplier investment in decarbonisation and could provide opportunities to incorporate heat-stress adaption into financing decisions. This remains an emerging area of practice, but suggests potential for climate adaptation, worker protection and supply-chain decarbonisation to reinforce one another.

Outcomes: The engagements established a clearer baseline of company preparedness for managing heat stress across apparel supply chains and identified areas where further stewardship attention is required. In particular, it was identified that a need for more consistent monitoring of workplace heat and heat-related incidents, clearer expectations for supplier intervention, stronger integration of worker voice, and purchasing practices that allow suppliers to respond to extreme heat without risking commercial consequences.

The engagements also highlighted opportunities for further collaboration across the sector. Companies frequently pointed to the value of common standards, including the developing approach of the International Accord, rather than individual brands establishing different temperature thresholds and remediation requirements. PIRC will therefore continue to monitor the development of industry approaches alongside company-level progress.

Future engagement will focus on whether recognition is translating into measurable implementation. This will include assessing whether companies improve the quality and consistency of heat-risk data, strengthen supplier and worker protections, integrate heat resilience into purchasing practices and, where relevant, consider opportunities for climate adaptation and supply-chain decarbonisation to support worker protection simultaneously.

HIGH VOTES

Annual General Meetings (AGMs) provide shareholders with an important opportunity to hold companies to account and express views on key governance issues. Voting outcomes therefore offer a valuable indicator of where investors have identified material governance issues. Resolutions facing significant shareholder dissent represent a potential governance red flag that companies should seek to understand and address.

The UK Corporate Governance Code recommends that companies facing over 20% dissent to a resolution should reach out to their shareholders and disclose the outcome of this engagement. But regardless of local regulatory expectations, such follow-up is widely regarded as good governance practice for all companies.

AGM voting results were analysed to identify instances of significant shareholder dissent and held meetings with several of the companies affected. These engagements were intended to explore the factors driving shareholder opposition and encourage companies to address shareholders' concerns.

EXECUTIVE PAY

Shareholders have long taken an interest in executive pay practices for reasons of accountability, fairness and alignment. Average dissent levels to executive pay resolutions continue to exceed those of most other routine AGM proposals. PIRC's analysis of AGM voting outcomes found that one in twenty FTSE 350 companies and one in twelve S&P 500 companies received at least 20% opposition to their

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advisory pay-related resolutions in the first half of 2026.

Northern LGPS considers that executives at the companies in which it invests should be appropriately rewarded for their contribution to the success of the business, with remuneration aligned to performance through the use of robust performance conditions. The pool also considers the reputational risks associated with overly generous pay and high executive-to-worker pay ratios and recognises the potential for excessive executive remuneration to contribute to wider wealth and income inequality.

Continuing escalation in the quantum of executive pay across markets, driven in part by competitive benchmarking and a desire to attract, motivate and retain executives. This in turn can create an upward ratchet in pay levels, weakening alignment with shareholder returns and wider workforce experience, while increasing reputational risk. PIRC therefore advocates a remuneration framework built on proportionality, transparency and pay-for-performance principles. It is also crucial that performance targets and contractual provisions discourage excessive risk-taking and prevent rewards for failure.

A common theme amongst companies facing significant opposition to their executive pay programmes was an inadequate alignment between pay and performance. For example, the absence of robust performance conditions, or the exercise of discretion to override them, can lead to generous pay outcomes which are misaligned with shareholder experience. Such concerns are particularly acute during periods of weak corporate performance, with executives receiving bonuses while shareholders and employees face the costs.

Several companies used relative TSR (Total Shareholder Return) performance targets, which assess shareholder returns compared with those at peer companies. Many investors expect that these metrics set median performance as the minimum threshold for payout. A few companies allow for some awards to be paid for below-median performance, a practice difficult to reconcile with pay-for-performance principles. It is also considered that relative TSR performance targets should be accompanied by absolute performance hurdles, to ensure that awards are not paid where absolute shareholder returns are negative.

Clear disclosure of performance targets and assessments is also important to accountability. In particular, prospective disclosure enables shareholders to assess whether incentive conditions will be

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sufficiently stretching, but many companies withhold disclosure owing to concerns around commercial sensitivity. Companies should instead assess this on a case-by-case basis and explain clearly any qualitative or discretionary factors used to determine awards.

A notable theme among US companies was the decision to pay very large one-time awards to their CEOs, premised on the need to retain and motivate the executives. These awards come in addition to highly generous annual and long-term incentives already received by executives, leading many investors to believe that they are arbitrary, unnecessary and inconsistent with pay-for-performance principles. These awards contribute to a wider problem of excessiveness and result in very high pay ratios between CEOs and workers, itself a potential issue to corporate reputation and social licence.

Generous pay does not guarantee executive retention. Companies seeking to recruit an executive commonly offer buyout awards, which replace incentives forfeited on departure from their previous employer. Equally, executives may leave for personal reasons completely unrelated to pay. CEO retention risks can be better managed through robust succession planning – building a strong pipeline of potential executive talent to reduce the reliance on any individual executive.

Engagement: Engagements were held with three US companies and two UK-listed companies facing shareholder dissent over executive pay. The three US companies all confirmed that their use of one-off retention awards was a major factor in shareholders' dissent. The companies argued that these awards were necessary to secure leadership continuity during periods of strategic transformation, uncertainty or organisational change, and emphasised their long-term vesting structures and performance linkage. Companies were pressed for more specific rationale and evidence used to justify these awards. Thermo Fisher highlighted the need for stability in light of recent executive turnover, while BNY argued that the award was justified by strong financial performance. The response set out that robust succession planning would reduce reliance on expensive one-off awards. Companies responded that succession planning was a board priority and provided details of the actions taken.

Elsewhere, shareholder dissent reflected pay-for-performance concerns arising from the absence of performance conditions or the use of discretion to override performance conditions. At Atalaya Mining, concerns arose from legacy awards without performance conditions, which the company said were transitional arrangements associated with its move from AIM to the FTSE 250. Atalaya emphasised that it had since adopted a more conventional framework incorporating KPI-linked incentives and longer vesting periods. At Vistry, shareholders objected to the board's use of positive discretion to increase the bonus outcome above the level indicated by the performance measures, after a difficult financial period for the company. In response, the company explained that executive retention was a major consideration, in light of the recent departures of the CEO and CFO. PIRC reiterated its opposition to the use of positive discretion, to which the company noted that it generally avoided using discretion.

PIRC also challenged several of the companies on their use of relative TSR metrics that allowed vesting for below-median performance. BNY contended that this was common practice in S&P 500 companies, while Thermo Fisher argued that below-median performance was still challenging given the strength of its peer group. Both companies argued that delivering the awards in shares maintained shareholder alignment. PIRC also raised concerns that relative TSR metrics could result in payout despite negative absolute shareholder returns, provided the company outperformed its peers. It was also requested companies consider incorporating positive absolute shareholder returns as an additional vesting requirement (an underpin).

Transparency around performance targets was another area of focus. At Atalaya Mining, the company was asked for greater prospective disclosure of annual bonus targets. The company explained that short-term targets were generally commercially sensitive but agreed to consider disclosure on a case-by-case basis. At Thermo Fisher, engagement further questioned the committee's positive holistic assessment of performance despite weak financial outcomes. The company attributed its financial performance to significant headwinds, such as government funding cuts, and argued that payouts were justified in light of actions taken to position the business for future growth. The company was encouraged to maintain clearer prospective disclosure of qualitative factors and greater use of objective measures. Thermo Fisher was also reluctant to disclose its strategic objectives prospectively because some were qualitative in nature and not readily auditable.

Further questions were asked regarding how companies considered workforce fairness and the potential reputational implications of excessive executive pay. Aon emphasised its board-level oversight of employee engagement, workforce pay equity and employee wellbeing. Vistry acknowledged that its client base, which includes local authorities and housing associations, may take a more cautious view of executive pay. The company added that the committee had heard these views clearly and remained mindful of how its decisions were perceived.

Outcomes: All companies engaged demonstrated awareness of the causes of dissent and active efforts to engage with shareholders. Several companies were receptive to calls for greater transparency: Atalaya Mining agreed to consider prospective disclosure of annual bonus targets on a case-by-case basis, while Thermo Fisher acknowledged PIRC's request for clearer explanations of qualitative performance assessments. BNY similarly indicated that it would consider enhancing disclosure on retention and succession planning.

Atalaya Mining confirmed that its legacy and transitional awards were being phased out in favour of a framework incorporating performance-linked incentives and longer vesting periods. Vistry acknowledged the significance of shareholder dissent and indicated that the concerns raised would be considered in future remuneration decisions and stakeholder engagement. Thermo Fisher said that it did not currently anticipate granting further one-off retention awards, while retaining the flexibility to do so in extraordinary circumstances. However, none of the US companies ruled out future one-time awards at this point in time.

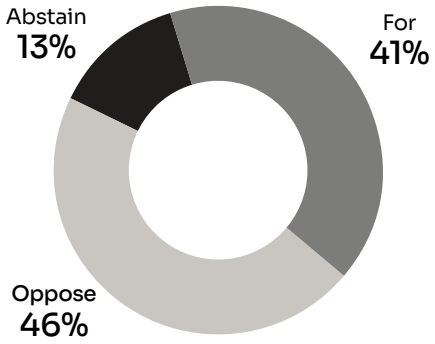
ENGAGEMENTS Q3

Q2 Engagements

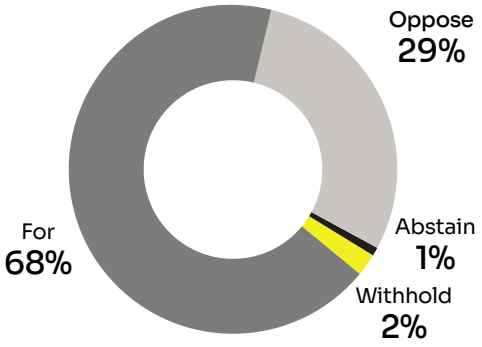
Company	Topic	Domicile
A G BARR PLC	Water Stewardship	GBR
ANHEUSER-BUSCH INBEV SA	Water Stewardship	BEL
AON PLC	Remuneration	USA
ASAHI HOLDINGS INC	Water Stewardship	JPN
ATALAYA MINING COPPER S.A.	Remuneration	ESP
BASF SE	Climate Change	DEU
BROWN-FORMAN CORPORATION	Water Stewardship	USA
BURBERRY GROUP PLC	Clean Heat	GBR
COCA-COLA FEMSA SAB DE CV	Water Stewardship	MEX
DIAGEO PLC	Water Stewardship	GBR
HEINEKEN NV	Water Stewardship	NLD
HENKEL AG & Co KGaA	Environmental Risk	DEU
HENNES & MAURITZ AB (H&M)	Clean Heat	SWE
KIRIN HOLDINGS CO LTD	Environmental Risk	JPN
MARKS & SPENCER GROUP PLC	Clean Heat	GBR
NEXT PLC	Clean Heat	GBR
PAGE INDUSTRIES LTD	Clean Heat	IND
PUMA SE	Clean Heat	DEU
RYANAIR HOLDINGS PLC	Remuneration	IRL
TESCO PLC	Environmental Risk	GBR
THE BANK OF NEW YORK MELLON CORPORATION	Remuneration	USA
THERMO FISHER SCIENTIFIC INC.	Remuneration	USA
VISTRY GROUP PLC	Remuneration	GBR
RESTAURANT BRANDS INTERNATIONAL	Environmental Risk	GBR

PIRC VOTE RECOMMENDATIONS FOR AGMS Q3

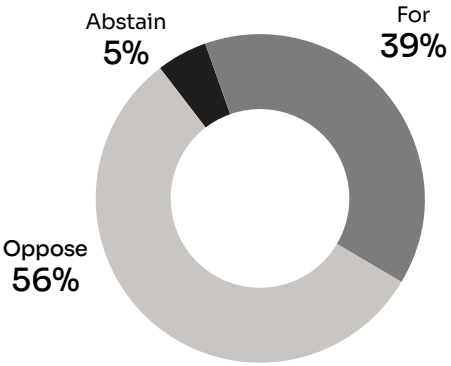
Votes on remuneration advisory, Q3 2026



Director elections, Q3 2026



Votes on remuneration binding, Q3 2026



Auditor appointments, Q3 2026

